

Message Text

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E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: JAPANESE EXCHANGE RATE POLICY

1. SUMMARY: ARTICLE IN NOV 4 MAINICHI DAILY NEWS BY MASAO FUJIOKA, DIR GEN, INTL FIN, MOF, PROVIDES REASONABLY SUCCINCT STATEMENT OF GOJ VIEWS REGARDING CHARGES THAT YEN IS BEING MAINTAINED AT UNDERVALUED LEVEL. FUJIOKA EXPRESSES SERIOUS CONCERN ABOUT FOREIGN CRITICISM THAT JAPAN IS KEEPING THE YEN UNDERVALUED; CALLS CHARGE GROUNDLESS; AND DENIES THAT JAPAN HAS EVER TAKEN STEPS TO PROMOTE EXPORTS AS A MEANS OF PROMOTING ECONOMIC RECOVERY. HE ALSO IMPLIES NO SPECIAL MEASURES TO REDUCE DOLLAR HOLDINGS CURRENTLY BEING TAKEN BUT AFFIRMS INTENT TO MAKE SUCH "MINOR" POLICY ADJUSTMENTS AS INCREASE IN FLOTATION OF YEN-DENOMINATED FOREIGN BONDS, CURBS ON IMPACT LOANS, AND PROMOTION OF YEN-BASED TRADE. FUJIOKA STATES
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THAT IF JAPANESE PAYMENTS SURPLUSES (PRESUMABLY MEANING

CURRENT ACCOUNT SURPLUSES) WERE ENTIRELY ALLOWED TO BE REFLECTED IN THE YEN RATE, RATE COULD BE EXCESSIVELY HIGH. END SUMMARY.

2. FOLLOWING IS TEXT OF ARTICLE WHICH APPEARED IN ENGLISH LANGUAGE DAILY, MAINICHI DAILY NEWS, THURS, NOV 4, 1976. EDITORIAL NOTE PRECEDING TEXT RECALLS COMPACT AND REUSS CHARGES ABOUT MANIPULATION RATE AND SAYS FUJIOKA MADE FOLLOWING REMARKS RECENTLY (OCCASION UNSPECIFIED).

BEGIN TEXT: "FROM AROUND THE TIME WHEN THE SUMMIT CONFERENCE OF ADVANCED COUNTRIES WAS HELD IN PUERTO RICO TOWARD THE END OF JUNE, A SERIES OF CRITICISM HAS BEEN RAISED AGAINST JAPAN, IN THE U.S.

THE CONTENTION OF THIS CRITICISM IS THAT WHILE JAPAN'S INTL BALANCE OF PAYMENTS IS SHOWING A BIG SURPLUS, JAPAN'S MONETARY AUTHORITIES ARE KEEPING THE YEN UNDERVALUED AND ARE RAISING THE FOREIGN EXCHANGERESERVES BY PURCHASING DOLLARS ON FOREIGN EXCHANGE MARKETS. BY DOING SO, JAPAN IS PROMOTING EXPORTS AND IS EXPORTING UNEMPLOYMENT AND INFLATION TO THE OTHER INDUSTRIAL NATIONS.

WE ARE BECOMING SERIOUSLY CONCERNED ABOUT THE FACT THAT CRITICISM IS BEING RAISED IN AN ORDERLY MANNER.

AS REGARDS THE INTL B/P SURPLUS, IT CANNOT BE CLAIMED THAT IT IS TOO BIG ALTHOUGH THE CURRENT BALANCE WAS IN SURPLUS BY \$1,100 MIL IN THE FIRST SEVEN MONTHS OF THIS YEAR.

IN THE THREE YEARS FOLLOWING THE OIL CRISIS, JAPAN'S CURRENT BALANCE SURPLUS IS ESTIMATED TO BE IN DEFICIT BY \$1,600 MIL WITH THE FORECAST BY THE OECD TAKEN INTO ACCOUNT. THE CORRESPONDING FIGURES SHOW THAT THE U.S. IS EXPECTED TO HAVE A SURPLUS OF \$7,600 MIL, AND W. GERMANY, \$15,400 MIL.

CHARGE THAT THE YEN IS UNDERVALUED IS ALSO GROUND-LESS. IT SHOULD BE NOTED THAT SINCE NOV OF 1975 WHEN THE UNCLASSIFIED

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SUMMIT WAS HELD IN RAMBOUILLET IN FRANCE, THE YEN'S VALUE ROSE BY 4.6 PERCENT AGAINST THE DOLLAR AND 2 PERCENT AGAINST THE GERMAN MARK.

JAPAN IS ALSO BEING CRITICIZED THAT THE BOJ IS STEPPING INTO THE TOKYO FOREIGN EXCHANGE MARKET WITH AN AIM OF INCREASING FOREIGN EXCHANGE RESERVES THROUGH THE PURCHASE OF DOLLARS.

IT IS TRUE THAT MONETARY AUTHORITIES CARRIED OUT MARKET INTERVENTIONS AT TIMES, RECENTLY, MOSTLY WHEN THE YEN BECAME THE TARGET OF SPECULATIVE BUYING FOLLOWING THE UNCERTAINTIES ON THE EUROPEAN MONEY MARKETS.

AS A RESULT, THE FOREIGN EXCHANGE RESERVES HAVE RISEN, BUT IT SHOULD BE NOTED THAT THE INTERVENTION WAS LIMITED TO THE AMOUNT OF THE SPECULATIVE FUNDS WHICH FLOWED INTO JAPAN.

SUCH LIMITED INTERVENTION COMPLIES WITH THE GUIDELINES FOR THE MANAGEMENT OF FLOATING EXCHANGE RATES LAID DOWN BY THE IMF IN JUNE 1973 AND THE RAMBOUILLET AGREEMENT CONCLUDED LAST NOV TO PREVENT ERRATIC FLUCTUATIONS IN EXCHANGE RATES.

IN THE MEANTIME, JAPAN HAS NEVER TAKEN STEPS TO PROMOTE EXPORTS AS A MEANS TO LET THE ECONOMY RECOVER IN ACCORDANCE WITH THE PLEDGE MADE BY OECD MEMBER COUNTRIES THAT NO MEASURES WOULD BE TAKEN AT THE EXPENSE OF OTHER COUNTRIES TO AVOID GLOBAL DEFLATION EXPECTED TO FOLLOW THE OIL CRISIS.

THESE MISUNDERSTANDINGS OF JAPAN'S FOREIGN EXCHANGE POLICY SEEM TO BE OFTEN BASED ON THE COMMERCIAL INTERESTS OF THE PERSONS WHO RAISE CRITICISM. FOR EXAMPLE, REP. REUSS SAYS IN HIS LETTER TO JAPANESE AMBASSADOR IN WASHINGTON FUMIHIKO TOGO THE UNDERVALUED YEN CAN BE BLAMED FOR THE POOR SALES OF MOTORCYCLES IN HIS ELECTORAL DISTRICT. SUCH PROTECTIONISM IS NOT LIMITED TO THE U.S., BUT IS PREVALENT IN EUROPE.

UNDER THESE CIRCUMSTANCES, WE SHOULD STRIVE TO CURB PROTECTIONIST SENTIMENT BY EACH OTHER AND PROMOTE INTL COOPERATION, UPHOLDING THE PRINCIPLES OF FREE TRADE AND FREE UNCLASSIFIED

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ECONOMY.

LASTLY, JAPAN IS NOT REQUIRED TO CHANGE ITS FOREIGN EXCHANGE POLICY DESPITE THE RISING OVERSEAS CRIES AGAINST IT. IT CANNOT BE DENIED THAT THE EXCHANGE RATE IS PLAYING A SIGNIFICANT ROLE IN ADJUSTING THE INTL BALANCE OF PAYMENTS UNDER THE FLOATING SYSTEM. BUT IT IS NOT APPROPRIATE TO MANIPULATE THE YEN'S VALUE IN ORDER TO DO SO WHEN THERE IS NO CHOICE BUT TO LEAVE EXCHANGE RATES TO THE FORCES OF SUPPLY AND DEMAND IN THE MARKET.

IN THE PAST, JAPAN MADE PURCHASES OF SPECIFIC ITEMS FROM THE U.S. OR RESORTED TO SPECIAL MEASURES TO REDUCE DOLLAR HOLDINGS. BUT THESE STEPS ARE NOT FREE FROM UNFAVORABLE DEVELOPMENTS.

THERE WILL BE NO NEED FOR JAPAN TO CHANGE THE BASIC FOREIGN EXCHANGE POLICY EXCEPT FOR SOME MINOR ADJUSTMENTS. THESE ADJUSTMENTS WILL INCLUDE AN INCREASE IN THE FLOTATION OF YEN-DENOMINATED FOREIGN BONDS WHICH RESULT IN A BOOST OF CAPITAL OUTFLOW OR A CURB ON THE INTAKE OF IMPACT LOANS.

WHAT WE CAN DO AT PRESENT IS TO PROMOTE YEN-BASED TRADE. JAPAN'S FOREIGN EXCHANGE RESERVES NOW STAND AT \$16,000 MIL WHILE BORROWINGS FROM OVERSEAS BY FOREX BANKS TOTAL AROUND \$300,000 MIL. (SIC) WHEN THESE BANKS' OVERSEAS ASSETS ARE TAKEN INTO ACCOUNT, THE NET BORROWINGS TOTAL AROUND \$15,000 MIL. THIS MEANS THAT JAPAN'S RESERVE IS VIRTUALLY NIL.

IF JAPAN'S INTL B/P CONTINUES TO YIELD SURPLUSES, WE WILL HAVE SOME CHOICES IN THE USAGE OF THE SURPLUS. IF THE ENTIRE SURPLUS IS REFLECTED IN THE YEN'S VALUE, I AM AFRAID THAT THE YEN MAY BE RATED EXCESSIVELY HIGH.

IF THE TOTAL SURPLUS IS ACCUMULATED IN THE FORM OF FOREX RESERVES, THE INCREASE IN THE RESERVES MAY UNFAVORABLY AFFECT LIQUIDITY ON THE DOMESTIC MARKET.

THE PROPOSED INCREASE IN YEN-QUOTED TRADE TRANSACTIONS WILL BE ONE OF THE MOST APPROPRIATE STEPS TO DEAL WITH
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THE SURPLUS. THE SHIFT TO YEN-BASED TRADE IS EASILY CARRIED OUT AT A TIME WHEN THE INTL B/P IS BASICALLY IN SURPLUS AND THE DOMESTIC MONETARY CONDITION IS RELAXED AS IT IS AT PRESENT.

THE PROMOTION OF YEN-BASED TRADE IS MEANINGFUL TO CHECK THE INCREASES IN FOREX RESERVES THROUGH THE INTAKE OF SHORT-TERM OVERSEAS LOANS, AND THIS IS ALL THE MORE MEANINGFUL WHEN JAPAN IS UNDER STRONG CRITICISM FOR ACCUMULATION OF RESERVES."
HODGSON

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